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SUBJECT: Shantou - Eastern Guangdong Economy Has Advantages to
Weather Financial Crisis (Part 2 of 2)

REF: A) Guangzhou 618, B) Guangzhou 715, C) Guangzhou 719, D)
Guangzhou 723

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1. (U) Summary: Maybe our industry and government contacts in
Shantou are dreaming but they are starting to think that perhaps
after thirty years their time has come and the global financial
storm won't have the same damaging impact in eastern Guangdong
Province that it's wreaking on the export-processing centers of the
Pearl River Delta (refs A, B and C). They claim that their region's
private companies own their own brands, control their own marketing
and distribution channels, are less reliant on bank credit and are
licensed to sell to the domestic market. Larger firms in the region
maintain healthy market share and report receiving more orders after
factory closures in Dongguan. Executives also hope their companies
will receive government stimulus money and contracts. However,
local officials and executives alike acknowledge slowing export
growth and shrinking demand and wonder aloud if local
export-oriented manufacturers can quickly and profitably pivot to
the domestic market. Persistent challenges such as high domestic
shipping costs, intellectual property rights (IPR) violations, and a
struggling export sector, might in the end, outweigh any perceived
advantages in the current economic environment. End Summary

This is the second of a two part report on Shantou. Ref D examined
the city's experience as one of the original special economic zones
with 30 years of reform and opening.

Private Companies Picking Up the Slack

2. (SBU) While the global financial crisis is clearly having a
major impact on south China's economy, the impact on Shantou will be
less severe than in Dongguan and other parts of the Pearl River
Delta (PRD), according to Liao Xiaoping, Deputy Director of Shantou
Development and Reform Commission (DRC). Shantou's economy relies
heavily on light industrial manufacturing of consumer products. But
the region's companies generally manufacture under their own brand
names, many of which are licensed and with well defined distribution
channels for the domestic market, in contrast to the original
equipment manufacturing (OEM) model more prevalent in the PRD, which
is export oriented.

3. (SBU) Liu Wenhua, Assistant Director of the Bureau of Foreign
Trade and Economic Cooperation (BOFTEC) added that manufacturers in
eastern Guangdong are less reliant on bank credit than their
competitors in the PRD. She explained that in the aftermath of the

2000 government crackdown on piracy and smuggling, banks would not lend and companies learned to survive by relying on internally-generated capital to expand operations. As a result, they are not suffocating from the current credit crunch.

Silver Lining in the Financial Storm

¶4. (U) Local government officials even see growth opportunities emerging from the crisis. They report that several toy factories in Shantou's Chenghai District are receiving more orders as a result of the factory closings in Dongguan (ref A). Some companies also reported they have enough orders to fill up their production schedules through the first half of next year. An executive from Yihua Enterprises Co Ltd, Shantou's largest furniture manufacturer, added that, initially the company could not find sufficient (read: cheap) labor, but since the factory closures began in the PRD, finding workers has not been a problem.

¶5. (U) Shantou officials have also invested significant resources preparing to be recipients of the provincial government's "double transfer" policy aimed at moving labor-intensive industries out of the PRD to less-developed parts of the province. Shantou and other local governments in eastern Guangdong are building industrial parks to attract factories leaving the PRD. The transfers may come sooner than they had planned. In policy documents released last month, the provincial government - which despite concerns raised at the national level by senior officials, including Wen Jiabao, about the impact of factory closings on jobs, migrant workers and social conditions in the PRD - outlined stimulus package plans aimed at speeding up the transfer process by investing heavily in new high-tech infrastructure in the PRD. However, Shantou officials caution that, because of land scarcity, they will only allow "high

quality capital" to transfer to the region.

Crisis Still Has a Bite

¶6. (U) Despite these advantages, local officials and businesses are clearly bracing for a downturn. Liao said that Shantou's October economic indicators already show signs of slowing and is especially concerned about local firms producing for the export market. Based on BOFTEC's interviews with local exporters, orders for next year are dropping by as much as half. According to Liu, several large foreign invested enterprises (FIEs), which make automobile parts for American buyers, have suffered a "severe hit" due to shrinking demand overseas. Zhuang Dajian, owner of Golden Glass Co. Ltd, a producer of specialty and solar panel glass, reported that orders from Chile, Canada and the Middle East have been delayed or cancelled altogether (his company does not currently export to the United States). Zhuang, whose company supplied glass panels for the Beijing "Bird's Nest" Olympic stadium, hopes to secure project contracts for environmental friendly railway stations using solar glass panel roofs, which he said would be part of the central government's stimulus package.

Overly optimistic?

¶7. (SBU) The companies that survived a local recession five years ago appear to be stronger and better suited to cope with the current crisis, but the region faces other disadvantages that could prove hard to overcome. Zhuang says inconvenient location makes shipping costs too high to serve the domestic market; IPR counterfeiting remains a problem; and factory closures that have occurred in the area raise concerns about unemployment and social unrest. Nonetheless, officials and executives believe that the local economy will come out of the crisis, not unscathed, but less seriously wounded than the PRD's.

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